

MONEY, DEBT & HAPPINESS

David Barker

1. **Don't sign it unless you agree with it.** If you don't understand it, don't sign it. Far too many people sign documents without understanding the terms they are committing to. Ask questions. If you still don't understand, find someone you trust, who can explain it to you before signing.
2. **Savings.** Pay yourself first. Start now stashing 10% of your income in an "Emergency Savings". Try to never, ever spend it (put some in Roth IRA CDs, and if your employer matches, put some into the 401k or whatever account they match). Also have a "For Sure" savings account for yearly expenses you know are coming and you can estimate (e.g. Christmas, insurance, taxes, etc.). Also have a "Buy Stuff" account. If you do, you'll be able to bypass many financial disasters which will face you, and you can avoid borrowing money from high-rate lenders.
3. **Happiness.** Money doesn't create happiness, but the lack of money, or too much debt, creates unhappiness. The number one cause of divorce in the US is money problems. A major cause of worse money problems and more unhappiness is divorce. A major money problem is too much debt. If you want to avoid this vicious cycle, avoid too much debt and screen your potential marriage partners. Happily married people suffer least from depression, and have happier children.
4. **Borrowing.** Don't borrow money unless you are willing and able to pay it back. Failure to pay debts – on time – causes severe financial, emotional, and family problems. Experts recommend you only borrow for things that increase in value. Many lenders are willing to loan you money in ways that will make it very painful to pay back, especially high-rate lenders.
5. **Credit cards** make it incredibly easy to spend money you don't have! Pay off your entire balance each month (early) to avoid paying interest and fees. If you pay only the minimum required payment, (like one in four Americans), you lose. If you're too impulsive, hide, or freeze your card! If used well, credit cards are great tools; if used poorly, financial ruin!
6. **Unauthorized use of credit cards.** If a charge - which you did not authorize - appears on your credit card statement, contact the credit card company immediately. Follow-up your dispute in writing within 60 days to ensure your rights.
7. **Disputed items.** If you are dissatisfied with a product or service you charged with your credit card, first make a "good faith" attempt to resolve the dispute with the merchant. If you are unable to resolve it, contact your credit card provider and file an official dispute. Do this within 60 days of the charge to preserve your rights and avoid negative reports.
8. **Debit cards.** If you, or someone else, uses your debit card, money is deducted from your checking account. For pre-authorized purchases (e.g. gasoline or motels) a "hold" is placed on your checking account, usually for an amount larger than the expected charge. This hold can cause other checks or charges to be bounced – if you don't have a sufficient cushion of funds in your account, or a backup system (e.g. overdraft protection line of credit loan). Once funds are deducted from your account, it is often difficult or impossible to get your money refunded. Don't use a debit card for mail order, telephone, or internet purchases. Even if you don't receive what you ordered, you may not be able to get your money back.
9. **Compare.** Beware: Utah does not have a limit on the amounts or rates lenders may charge. Before you decide who to borrow from, compare! Find out who is offering the best deal at that time – look for the loan with the lowest rate (APR).
10. **APR.** The Annual Percentage Rate (APR). It is the standard rate, so we may compare the cost of borrowing. It is the cost of credit expressed as a yearly rate. When you borrow, always beat 13% APR (consider "13" to be unlucky when it comes to borrowing). Since Utah has no rate ceiling, many lenders charge rates far in excess of 13% APR. Some have been illegally stating other rates such as weekly or monthly rates. Compare APR to APR. If you pay your bills on time, and you aren't over-extended, you can nearly always find loans or financing arrangements at rates lower than 13%. Beware though, because beating 13% does not always mean you are getting a good deal. For instance: the difference in total interest paid on an 11% versus an 8% 30-year, \$100,000 mortgage loan is \$64,283 (assuming all payments are made as agreed).
11. **Scams & bad deals.** Identity theft is the #1 scam. Keep your account #s, and Social Security # out of the hands of those who don't need to know them. Don't pay up-front fees in hopes of obtaining a loan or a credit card. An exception to this rule is a home loan, which usually involves appraisal and credit report fees - paid in advance. Popular loan scams ask people to send a fee for a promised loan or credit card even if their credit rating is bad. Watch out for someone who pays you too much with a phony "certified check" and asks you to wire them the difference. If you do, you lose. Utahns tend to be too trusting: we need to act smarter! Don't sign untrue statements! Beware of companies who loan to people with bad credit. Don't mortgage your home to invest! Too many have lost the investment and their home.
12. **Solicitations.** Don't give your account numbers, credit or debit cards, or your Social Security numbers to anyone who phones or e-mails you. They may not actually be who they claim to be. They may fraudulently use your information, and the damage done to you financially, or to your credit rating, may cause huge headaches, and a horrendous waste of your time, money and energy trying to correct the problems. It is estimated that it takes ~400 hours of time to repair id theft.
13. **Investing.** If you can't afford to lose it, don't speculate with it. The greater the rate, the higher the risk.
14. **Risk Free.** Nothing is "risk-free". Especially nothing involving money and investments.
15. **Too good to be true.** If something sounds too good to be true, it is! Don't fall for the scams. Heed the clues!
16. **Late fees.** To avoid late fees (which multiply the cost of borrowing), pay early, or at least on time.

17. **Repossessions.** To avoid repossessions and associated fees, pay early or on time, and keep your insurance current.
18. **Pay extra principal → pay less interest.** To pay less interest on most loans made in Utah, pay more than the minimum required payment. Even small amounts of extra principal, can significantly reduce the total amount of interest you would otherwise pay over the life of the loan. Before doing this, however, make sure your lender accepts extra principal payments, and find out what particular procedure you need to follow to ensure your extra principal is properly applied.
19. **To establish good credit.** Inexpensive ways to establish good credit: (1) Obtain a good credit card. When you charge things, pay off the balance each month – **on time** – and pay no interest. (2) Establish a revolving line of credit (an empty loan) as an overdraft protection. (3) Get a loan to buy something, pay most of it off within a few days, and the rest within a few months. To avoid bad credit, don't borrow too much, and do pay your bills on time.
20. **Reconcile your checking account.** The sooner you do it, the easier it is. As soon as you receive your bank statement, compare it with your check register – item by item. Make sure both you and the bank have recorded things correctly. If you find that the bank has made errors, or the statement includes unauthorized deductions, contact them immediately.
21. **Blank checks.** Keep your blank checks in a safe place. Although you may not be technically responsible if someone steals your checks and forges your name, consumers are often unable to recover funds which have been removed from their accounts. Financial institutions have several legal defenses including consumers' negligence.
22. **Bounced checks.** To avoid costly bounced checks, tie your checking account to a revolving line of credit (an empty loan). If you have such a pre-arranged plan, and write a check for more than your available balance, a loan advance is made to pay the check. If you pay off that loan quickly, many financial institutions charge you very little in interest and fees (find out which financial institutions offer the best deals in your area). Keep that line of credit reserved as your checking account backup – and don't use it for anything else. Beware; many financial institutions are automatically providing **very high-cost** "bounce protection" programs for those who haven't set up an overdraft protection line of credit.
23. **Consolidation Loans.** A consolidation loan can result in great savings to borrowers if the new interest rate is significantly lower, and if you don't run-up new debt similar to what was just consolidated. But beware, because consolidation loans usually result in substantial amounts of money out of your pocket into the lender's. For instance, mortgage loans usually involve closing costs. Those costs increase the total debt. Many refinances involve reducing the monthly payment, but increasing the length of payback, which substantially increases the total interest paid. Borrowers who refinance unsecured debt (e.g. credit cards) into a home mortgage, also increase their risk of losing their homes. Also, remember to keep all of your payments current until the old debts are paid off. Too many people have damaged credit ratings, and are in bad financial condition because they counted on new loan money which didn't come when they expected it. Expect delays when applying for loans, especially consolidation loans. Don't spend money before you get it.
24. **Auto insurance.** Keep your auto insurance current. Utah law requires you to maintain liability insurance; in addition, most lenders require "full coverage" insurance. If you fail to keep your insurance up-to-date, you could end up making loan payments for years after your car has been totaled, also, lenders may repossess your vehicle, or charge you for a very expensive policy which does not provide the liability insurance required of you by Utah law. You can nearly always obtain full coverage insurance at less expense than the cost of the lenders' single-interest insurance. If you fail to provide liability insurance, your driver's license may be revoked, you may receive a ticket with a fine of \$400-\$2000, and your vehicle may be impounded. Before you can reinstate your driver's license you must provide SR22 insurance (which is extremely expensive, high-risk insurance). If your lender force-places insurance on you car, get written proof of your own insurance from your insurance company to your lender, and confirm that it got to the right person at your lender!
25. **Co-signing.** Don't co-sign on others' loans! Teach people to build their own good credit rating. Too often, co-signers end up paying off loans they are unprepared for; and financial hardships follow, including things as bad as the loss of their own homes. Numerous co-signors now have negative credit ratings because a primary borrower paid late. Many lenders do not notify the co-signor before reporting delinquencies or repossessions to the credit bureau.
26. **Bi-weekly payments.** If you get paid bi-weekly, (every other week), paying bi-weekly is a very convenient (almost painless) way to reduce your loan term and interest. For instance, if you make $\frac{1}{2}$ of your required monthly payment every 14 days (a bi-weekly period), you pay the equivalent of 13.05¹ payments in an average year. If you don't get paid bi-weekly, or if your lender doesn't accept biweekly payments, pay the equivalent amount in monthly installments. If you pay $\frac{1}{12}$ of the sum of 13.05 payments each month, you will match the bi-weekly advantage (minor rounding differences). Contrary to popular belief, the frequency of paying $\frac{1}{2}$ payment bi-weekly doesn't accomplish much, the real advantage is paying the extra principal (13.05 payments, or more, each year) which reduces the term and the interest paid. If you are considering signing up for a bi-weekly program, pay close attention to the cost. Some servicers have large set-up fees and transaction fees. Also consider the credibility of any company handling your money, some have diverted payments into their own pockets, leaving borrowers to make payments twice (once to a corrupt servicer, and a second time directly to the lender).
30. **Credit repair.** Be wary of credit repair services. Some claim to be able to "fix" bad credit. If you have inaccurate information on your credit report, you may contact the credit bureaus directly and correct it yourself. If you have had credit problems, any attempts to remove the relevant information from your credit report are illegal, fraudulent, and only temporary. You may obtain a copy of your own credit report for free by contacting www.AnnualCreditReport.com.
(To view or download a PowerPoint slideshow, go to www.dfi.utah.gov, general info, consumer tips.) db 4/1/08

¹ In most years, a person who gets paid bi-weekly has 26 paydays. If s/he pays $\frac{1}{2}$ of the monthly payment biweekly s/he pays the equivalent of 13 payments ($26 \times \frac{1}{2} = 13$). About ever 11 yrs, a person who is paid biweekly gets 27 paydays. Therefore, in an average year: 13.05 payments.